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Regulating mechanism of global food trade in current conditions

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The paper has analyzed reforms in food trade. It has determined that with the growth of per capita income, taken transformations shift the focus from net taxation to subsidization. Low-income countries tend to impose relatively high taxes on farmers who produce export products, considering them as the most important source of budget replenishment, while developed countries seek to provide farmers with large subsidies. These differences often cause political misunderstanding, which is not to the benefit of poor population both in domestic and international markets. The aim of the conducted research was to analyse the trends and regularities in the development of global food trade and to define the mechanisms of its regulation in current conditions.

The research employs a complex approach that requires, with a single object of study, certain distribution of functions in its researching, systemization of results, which allows to reveal the nature and causes of the food problem. Generalization of facts and relationships is carried out by means of interpretation of methods: dialectical and structural, as well as historical and logical.

The study has made it possible to define that state regulation includes a system of institutions and mechanisms relating to general rules of state involvement in the reproduction process, and it is not "purposeful administrative and economic influence" for achieving goals. This, in conditions of market relations development, is the system of indicative methods which enable achieving global state goals. It is necessary to differentiate between state regulation and state support. They relate as the general and the particular in a certain situation. At the same time state support as a form of state regulation is aimed at creating institutional and organizational environment for the reformation of property relations, formation of social and

industrial infrastructure, creation of conditions for the stabilization of the reproductive process.

Key words: *world trade, agro-food system, subsidization, liberalization, protectionism.*

У статті здійснено аналіз реформ у сфері торгівлі продовольством. Встановлено, що у міру зростання доходів на душу населення здійснені перетворення переносять акцент з чистого оподаткування до субсидування. Країни з низьким доходом схильні обкладати відносно високими податками фермерів, які виробляють експортну продукцію, вважаючи їх найважливішим джерелом поповнення бюджету, у той час як розвинені країни прагнуть надавати фермерам великі субсидії. Ці відмінності нерідко породжують політичні непорозуміння не в інтересах бідного населення як на внутрішніх, так і на міжнародних ринках. Мета проведеного дослідження полягала у здійсненні аналізу тенденцій та закономірностей розвитку глобальної торгівлі продовольством та визначені механізмів її регулювання в сучасних умовах.

В процесі дослідження було використано комплексний підхід, який передбачає при єдиному об'єкті дослідження певний розподіл функцій по його вивченню, систематизацію результатів, що дозволяє розкрити сутність і причини виникнення продовольчої проблеми. Узагальнення фактів і зв'язків здійснюється за допомогою інтерпретації методів - діалектичного та структурного, а також історико – логічного.

Проведене дослідження дало змогу визначити, що державне регулювання включає систему інститутів і механізмів, що стосуються загальних правил участі держави у відтворювальному процесі, і це не «цілеспрямований адміністративний та економічний вплив» для досягнення цілей. Це, в умовах становлення ринкових відносин, система індикативних методів, що сприяють досягненню глобальних державних цілей. Слід розрізняти держрегулювання і держпідтримку. Вони співвідносяться як загальне і часткове, стосовно конкретної ситуації. При цьому державна підтримка як форма

держрегулювання спрямована на створення інституційних та організаційної умов для реформування відносин власності, формування соціальної і виробничої інфраструктури, створення умов для стабілізації відтворювального процесу.

***ключові слова:** світова торгівля, агропродовольча система, субсидування, лібералізація, протекціонізм.*

The urgency of the problem and its relationship to important scientific and practical tasks. Issues, related to the problems of world food trade, have always become the object of arguments and controversy in international trade negotiations and in national debate about the policy in the field of prices and subsidies. They are the cause of long-term multilateral trade negotiations such as the Uruguay or Doha Rounds, the source of political tension especially in the countries of transition type, the subject of a complex political dialogue with partners in development programs realization, particularly in the poorest countries.

Analysis of the reforms in the food trade has shown their political sensitivity, difficulty in implementation. However, continuation of reforms in agricultural trade can provide substantial benefits.

Historically, with the growth of per capita income, taken transformations shift the focus from net taxation to subsidization. Low-income countries tend to impose relatively high taxes on farmers who produce export products, considering them as the most important source of budget replenishment, while developed countries seek to provide farmers with large subsidies. These differences often cause political misunderstanding, which is not to the benefit of poor population both in domestic and international markets.

The economic and social expenditures of today's trade, price and subsidy policies in the global agri-food system are quite large, able to reduce prices on the world product markets by an average about 5%, and restrain the growth of the agricultural sector in developing countries. They absorb a significant share of the state budget and prevent investments that facilitate faster growth. Although in the last

two decades, such social and economic expenditures reduced, they still play a very important role, especially in developing countries, deepening income inequality. Correcting such errors in the chosen policy and in incorrect investment policy would help accelerate economic growth and reduction of poverty.

Analysis of recent research. Domestic economic school has significant theoretical and practical achievements of well-known scientists and economists who pay great attention to researching issues connected with the reduction of negative influence of the policy, implemented by developed countries in relation to developing countries, in particular through efforts to open markets of the former for the latter, while stimulating own production and lowering world prices. Among domestic scientists we should distinguish studies in this area by I. Burakovsky, A. Filipenko, A. Fursova, T. Tsygankova, L. Petrashko, T. Kal'chenko and others [1-4].

However, the issue of effectiveness of use by the state of direct and indirect subsidies to influence foreign trade relations among countries remains insufficiently investigated.

The aim of this paper is to analyse trends and regularities in the development of global food trade and to define mechanisms of its regulation in current conditions.

Presentation of the main research material. Increasing agricultural protectionism in developed countries and problems related to its effect on poorer developing countries enabled the implementation of international measures to reduce the difference in prices on world markets in the 1980s. At the moment the countries of the Organization for Economic Cooperation and Development (OECD) are involved in reconsideration of agricultural policy, but their progress is very slow. The average level of support for farmers declined from 37% of total farm income in 1986-1988 (at the moment of the beginning of the Uruguay Round) to 30% in 2003-2005. This rate, termed Producer Support Estimate (PSE), shows annual volume of cash payments received from consumers and taxpayers and redistributed in favour of agricultural producers, and is measured at the level of farms as a share of their gross income. Producing such estimate is a part of policies to support agriculture, regardless of their nature, direction or influence on the production or farm income.

Though 7-percent reduction in support can be considered a progress, its (absolute) amount for the same period increased from 242 billion dollars per year to 273 billion dollars [5].

Over 90% of agricultural support in the OECD countries (in the US dollars) is provided by the European Union (about half of the total amount), Japan, the United States and the Republic of Korea. Some OECD countries provided developing countries with the preference mode of access to their domestic markets.

Thus, in 2000 the US signed the African Growth and Opportunity Act, which promotes African products in the US markets through the use of incentives.

According to the Cotonou Agreement the EU on a unilateral basis granted the countries of Sub-Saharan Africa, the Caribbean and the Pacific with wide preferential access to the market.

Price support stimulates farmers in the OECD countries to increase production. The recent transition to an independent aid, that is not caused by production volumes and prices, demonstrates the desire of developed countries to weaken the negative effect of trade factor on current or future production and retain the support of farmers.

Independent payments distort the picture in a less degree than forms of support tied to production turnout, such as tariff protection, but they still affect the production. They can reduce the reluctance of farmers to take decisions related to risk (the welfare effect), and reduce irregularity of agricultural income (insurance effect).

Most programs of independent payments don't have limits in time, as it is in case of the EU and Turkey. In the US the Agriculture Act of 1996 suggested a temporary program, but it was not approved. In Mexico, the program of independent payment was originally limited by action period: the term was expected to expire when in 2008 phase-by-phase implementation of the Agreement on North American Free Trade Area (NAFTA) is completed, but the government has already announced that it will be retained in some terms.

Historically, macroeconomic principles require higher taxation of agriculture than it is combined with measures of agricultural policy, but for poor countries it is necessary to conduct reforms both at the macro level and in agricultural production.

In 1982, the indirect taxation of the agricultural sector, due to overrated currency rates and industrial protectionism, was almost three times higher than direct taxes in this sector. From the beginning of the reforms of the 1980s and 1990s of the last century direct and indirect taxes in many poorest countries were reduced for regaining macroeconomic balance, for improving resource allocation and for renewing growth.

Reducing overrated national currency rates, which imposed additional tax burden on agricultural exports (exported at the official rate) and subsidized food imports, resulted in a sharp decrease of premiums on parallel foreign exchange markets. In 59 developing countries, the average premium rates in terms of volumes of trade declined from over 140% in the 1960s to about 80% in the 1970-1980, and to 9% in the early 1990s [6].

Between 1980-1984 and 2000-2004 reforms in the countries of the first type, mainly in Sub-Saharan Africa, led to more than double reduction in taxation of agricultural sector: from 28 to 10%. Despite the macroeconomic corrections, during the 1980s real domestic prices of agricultural export products in all these countries didn't change much compared to the average rates, as macroeconomic improvements only compensated for the fall in world commodity prices.

In the 1990s the situation changed: more favourable world prices, macroeconomic reforms and reforms in agricultural sector led to a more substantial increase of real domestic prices for agricultural export products.

Between 1980-1984 and 2000-2007, the countries of the first type on average reduced protection against imports from the tariff equivalent of 14% to 10%, however there was a considerable reduction in taxation of exported goods: from 46% to 19%. Large part of tax reduction was caused by improvements in macroeconomic policies.

In the countries of the second type taxation decreased on average from 15% to 4%, but within this group of countries there are significant interstate differences. Some of them moved to reinforced protectionist measures for the agricultural sector (Indonesia, India, Malaysia and Thailand), others continued to tax it, though at a lower level than in the 1980s (Egypt and Senegal).

The countries of this type during the period between 1980-1984 and 2000-2007 on average lowered protective measures against agricultural imports from the customs tariff rate of 13% to 11% and reduced export tax from 29% to 13%.

In the countries of the third type average taxation changed from a negative value in 1980-1984 to purely protectionist value of 9% in 2000-2007 [7].

Although nowadays in developing countries farmers are less subjected to unjust policy in the area of prices and trade on the domestic market, than it was in the 1980s, this situation continues. In almost all countries the level of net taxation of agriculture is rather low. However, if to divide the taxes into payments for exported and imported products, it appears that in many countries, exports are still exposed to significant taxes, while some kinds of imports are subjected to high duties.

This creates certain conditions for improvement of the situation. The development of further reforms with taking into account the level of development of each country is required. Many developing countries where agriculture is a significant part of GNP will need to continue to tax this sector (avoiding disproportion) to provide additional funds for implementation of broader development programs.

Global total expenses on carrying out current trade policies are on both developed and developing countries. Recent estimates prove that the global expenses from the effect of trade tariffs and subsidies by 2015 will comprise from 100 to 300 billion US dollars per year. Probably two thirds of these expenses are caused by duties and subsidies for agricultural products, the rest by duties and subsidies for products from other sectors. This is much higher than the 6% that fall on agriculture and food production in the global GDP, or 9% share of these sectors in the world trade. Although such expenses in developing countries constitute a relatively small share of the world GDP, they are quite commensurable to the amount of aid aimed by these countries at the development of agriculture. Regarding agricultural policies of developed countries, their results cost to developing countries almost 17 billion US dollars per year, which is equivalent to five-time level of the overseas aid to their agriculture.

The share of developing countries comprises 30% of material expenses related to current implementation of trade strategies both in agriculture and in other sectors (Table. 1). Not so significant in absolute terms, these expenses turn for developing countries into a higher profit percentage for the reasons of relatively small size of their economies. For the entire group of developing countries, these losses will comprise 0.8% of the real GDP by 2015, but according to estimates for some of them the price will be much higher: 5.2% for Vietnam and 3.2% for Thailand. With the liberalization in trade of agricultural and non-agricultural goods the half of the expenses of developing countries will be caused by the policy of the developed countries and the other half by their general policy.

Table 1.

Estimates of allocation of expenses of conducted trade policy by country groups,
2009 [8]

Types of expenses in national economies	Allocation of expenses for public purposes,%		
	Developing countries	Developed countries	General
The policy of developing countries in the area:			
Agriculture and food production	9.8	6.6	16.4
Other sectors	5.2	23.0	28.4
The policy of the developed countries in the area:			
Agriculture and food production	9.1	38.0	47.0
Other sectors	5.9	2.4	8.4
Trade policy of all these countries	30.0	70.0	100.0

Over 90% of global expenses related to restrictions to the market access, to greater degree defined by duty size rather than the size of export subsidies and domestic support. Trade reforms open wide space for reduction of global expenses for carrying out existing strategies through increasing world prices for agricultural goods, which is expected to increase the share of developing countries in the market of agricultural products and the rate of growth of agricultural production as a whole. However, not all developing countries will get the benefits from this.

According to the World Bank study, full liberalization of trade will raise world market prices for primary agricultural products by an average of 5.5%, and for processed food products by 1.3%. The share of countries in the global agricultural exports is likely to grow by 9 percentage points: from 54 to 65%.

In the World Bank study the growth rates of agriculture production in developing countries increase from 3.9% in the base scenario to 4.2% in the scenario involving full liberalization, which in 10-year period will provide 8% increase in the economic growth, or 4.3% increase in agricultural production. Latin America and Sub-Saharan Africa will get the biggest benefits, while the developed countries, South Asia, Europe and Central Asia are expected to suffer losses (Table 2).

Table 2.

Growth of the agro-food system in global reformation of world trade conditions [8]

Regions, country groups	Changes in the rates of annual increase in agro-food production, %	Regions, country groups	Changes in the rates of annual increase in agro-food production, %
Developed countries	-1.7	Southeast Asia	0.0
Developing countries	0.3	Middle East	0.0
Including:			
Sub-Saharan Africa	0.4	Europe and Central Asia	-0.1
South Asia	-0.2	Latin America	2.0

Benefits from liberalization in trade of agricultural products will be gained by not all, some countries will be in losing situation, in the others individual producers will suffer losses. Estimation of the total material impact of trade reforms on poverty requires a comprehensive approach that connects the broad model of general macroeconomic equilibrium with data of household surveys.

There are several regularities of a general nature.

Cancellation in some developed countries of agricultural policy measures, causing changes in trade, has different consequences for developing countries in regard to trade terms. Improvements in trade conditions took place for developing

countries exporting goods which fall under protectionist measures in developed countries, but trade conditions got worse for net importers of these products.

The impact on poverty caused by changes in trade conditions, which are the result of agrarian reforms in developed countries, depends on the place of residence of the poor population, on what is the source of living and what is consumed as food. For example, less significant changes in conditions of trade for Thailand will probably lead to greater poverty reduction than in the case of Brazil. The reason for this is that in Brazil a third of the population, living in extreme poverty (less than 1 dollar per day), live basically on the money transfers and lose from rising prices, which restrains the growth of employment and income of the other two thirds of the population in this category, mostly unqualified agricultural and self-employed workers. In Thailand, on the contrary, the poorest population belong mainly to the households, which have diversified sources of income and are expected to benefit from higher prices. In Bangladesh, the expected deterioration in the terms of trade will reduce level of poverty, as the poor are mainly involved in unskilled labour and thus benefit from lower food prices.

Reforming agricultural trade in developing countries is likely to affect them less significantly than the change in policy of developed countries. Cancellation of import tariff limitations in developing countries will reduce the price of food for consumers who are classified as poor and will also reduce profits of manufacturers producing excess of these products. For example, in Mexico, after reduction of internal customs duties increase of poverty in rural households can be expected. On the contrary, in Vietnam real incomes in agriculture and real wages will increase after the reforms, ensuring poverty reduction in the country.

In general, when the reforms in agricultural trade in developed and developing countries are carried out in the same time, there is a tendency of poverty reduction, the share of the poor population decreases.

Promotion of global trade liberalization is not an easy process which is demonstrated by the Uruguay and Doha rounds of trade negotiations. Influential business groups uphold the most part of the realized political strategies and do not

want any changes. Most recent political reforms originated from the attempts to carry out unilateral reforms, that will play an important role in the future, taking into account that the major tools for eliminating changes in international and regional markets are still multilateral and regional agreements.

The Doha Round of trade negotiations provides an opportunity to implement at least a part of potential benefits from full trade liberalization. Although the potential benefits from such liberalization, expressed as a percentage of GDP, for developing countries are higher than for developed countries, yet the results of a possible Doha agreement for developing countries will be lower than expected. One of the reasons for this is that the Doha Round puts the emphasis on the elimination of export subsidies and reduction of domestic support of producers rather than on lowering sales duties in developed and developing countries. While the both directions are important, duty decrease is estimated to have greater impact on global welfare and poverty reduction than the abolishment of subsidies in developed countries.

The result will be determined by the following issues:

- the extent to which applied or real sales duties will be lower than their upper limit values agreed with the WTO. Today the rates generally lower than upper limits are in use, which requires a more significant reduction of the latter, if applied rates need be reduced. On average, in developed countries marginal rates are almost twice higher than applied rates, and in developing countries they are more than two and a half times higher;

- the level to which developed countries will reduce subsidies for major export crops such as cotton. As the national support programs comprise 89% of total global expenses caused by trade policy measures related to cotton, reducing these subsidies can provide significant gains for developing countries, especially for producers of cotton in Sub-Saharan Africa;

- the mode for "sensitive products", if not strictly limited, can undermine the positive effects of the reforms. Developed countries seek to ensure that the reduction of tariffs and subsidies for the group of sensitive products, the list of which is determined by themselves, is significantly less than the approach within the general

formula of the Doha Round requires. Estimates show that only 1% reduction of the list of tariff lines of the EU will lead to the fact that the overall reduction of duties, suggested by terms of the Doha Round (even without easing) will be approximately two times lower. The US offer to limit the list of sensitive products to 1% of all tariff lines, while the EU insist on 8%;

- the mode for "special products". Developing countries achieve little or not significant reductions of tariffs on special products considered necessary for their food security, for ensuring the resources and development of the rural area. The potential effect of any tax exemptions is likely to be specific for each country. Net buyers of food, especially the most fortuneless, will probably suffer from setting tariffs on basic food products, which will raise prices above their level before tariff imposition. Net sellers will still be in advantage. Some developing countries which export products, considered "special" in other countries, are concerned about possible restrictions on access to their markets in developing countries;

- setting special and differential mode for developing countries. Within the current round of trade negotiations (according to agreements on special and differential modes) for these countries more loyal requirements to reducing protectionist measures than for developed countries should be established. Although agricultural trade reforms in developed countries are likely to be reflected in a decrease in poverty more than reforms in developing countries, the latter will be able to carry out a thorough reduction of poverty on a broad front among a large group of people; with that, the importance of both directions of this process is undoubted.

On the basis of everything mentioned above, the Doha agreement could realize some of the benefits of full liberalization, but while under its terms tariff commitments will be reduced far below the actual level, subsidies of developed countries to the sectors that are most important for the economy of developing countries, will be reduced, tariff positions on sensitive products will be limited, and in the agreements on special products the interests of the poor as net buyers will be taken into account.

Since trade between developing countries takes an increasing share of their total turnover, mutual improvement in access to markets of each other could lead to positive results.

Regional agreements can affect the issues of regional collective actions, which are not included in the agenda of multilateral trade discussions. They are able to reduce political tensions and take advantage of economies of scale in infrastructure. Expansion of regional integration and mutual opening of markets can be important in areas where there are many small countries (like Sub-Saharan Africa). More than a third of global trade is carried out between countries which in some forms are involved in mutually beneficial regional arrangements. Such agreements are usually easier to conclude than multilateral, they have fewer participants and generally go beyond mere tariff reductions, also providing barriers reducing while crossing the borders, regulating measures and developing single standards. However, not all agreements lead to expansion of trade and investment, some on the contrary keep away from these processes. (For example, countries with high protectionist barriers at the border, can actually reduce the overall trading activity of their partners, even if within a certain regional group the volume of trade increases).

African countries have signed four regional agreements, Latin American countries have concluded seven, which raises difficulties for trade [9].

Recent World Bank review of these issues concluded that the increase of national income will be facilitated by agreements which suggest low external tariffs in the mode of most aiding for individual countries and include some easing for specific types of goods and products of certain sectors, not burdening tests of product origin, trade facilitating measures, regulating rules in the field of investment and intellectual property, which correspond to the interests of development, and also the graphs of timely implementation of the planned. Practical realization of agreements appeared complicated for many countries, namely the movement of goods and labour across borders is regulated by volumes of official documents which are poorly implemented in practice. Additional efforts should be made to harmonize policies, to lower non-tariff barriers, to reduce formalities and corruption at the border, to solve

the problem of currency transfers and to capitalize the results of economies of size in the field of infrastructure.

World experience shows that defining the boundaries and extent of state involvement in the creation of conditions for agrarian sector development is determined by the specificity of each country, its budget possibilities, the level of support for rural producers with due regard to compensations as a result of disparity of prices, providing assistance in diversified development of cooperation and integration with bringing products to the consumer. The role of the state is not limited by this: significant part of the problems is solved by the formation of industrial, social and market infrastructure. In globalization environment interaction of state regulation and interstate coordination of world economy development are intensified.

Conclusions. Thus, state regulation involves a system of institutions and mechanisms relating to general rules of state involvement in the reproduction process, and it is not "purposeful administrative and economic influence" for achieving goals. This, in conditions of market relations development, is the system of indicative methods promoting achievement of global state goals. It is necessary to distinguish between state regulation and state support. They relate to each other like the general and the particular in respect of a certain situation. At the same time state support as a form of state regulation is aimed at creating institutional and organizational conditions for the reformation of property relations, formation of social and industrial infrastructure, creation of conditions for stabilization of reproductive process.

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